

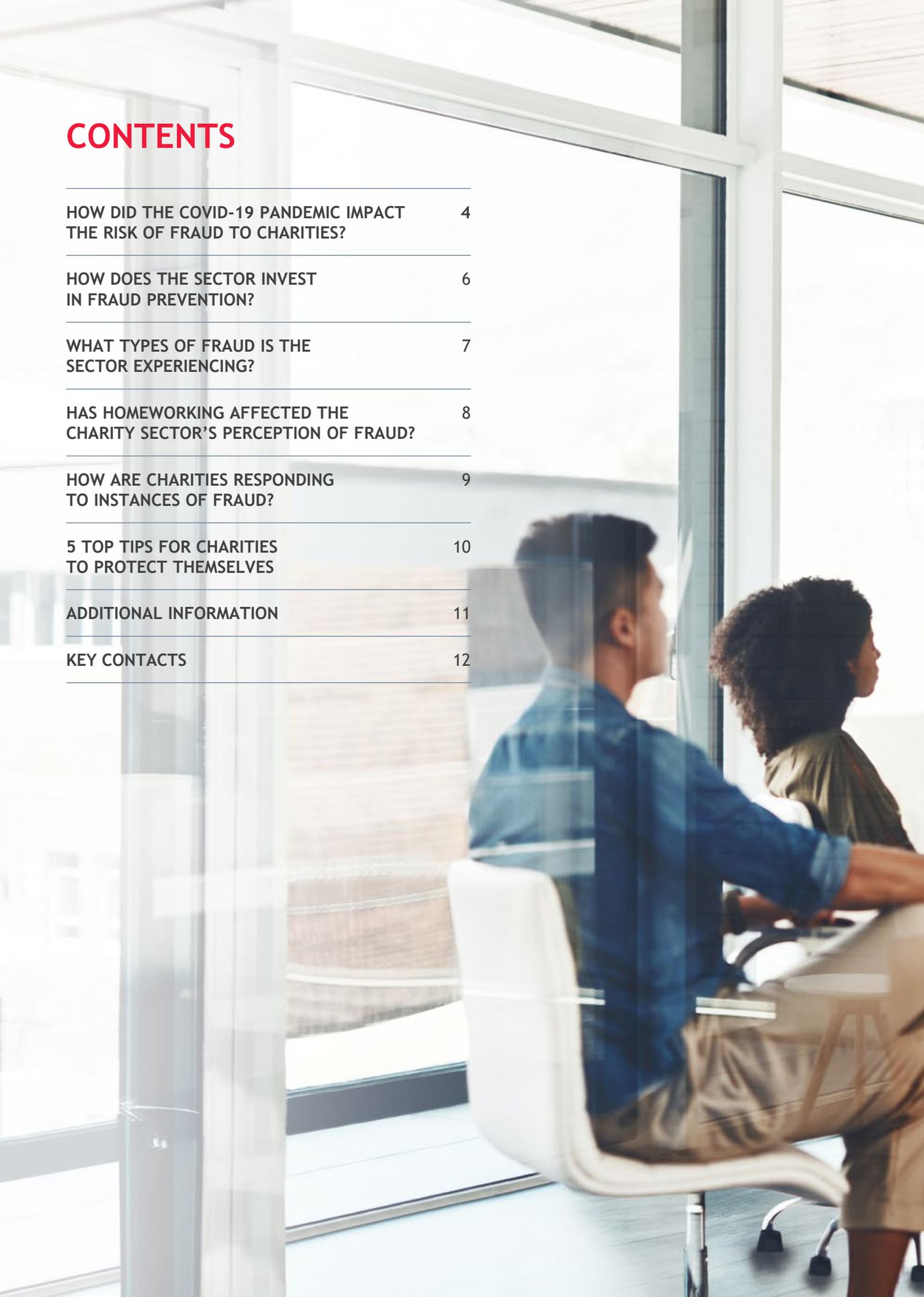


CHARITY FRAUD IN THE PANDEMIC

November 2021

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Levels of fraud have been steadily increasing since the start of the COVID-19 outbreak. Between April 2020 and March 2021 charities reported 1,059 incidents of fraud to Action Fraud - the national fraud reporting centre. This is the tip of the iceberg because a lot of fraud still goes undetected and unreported. Changes to the way many charities operate as a result of the pandemic have potentially exposed vulnerabilities for fraudsters to exploit, which is why it is more important than ever for charities to get the basics right when it comes to managing the risk of fraud.

BDO and the Fraud Advisory Panel teamed up to conduct a survey to understand the impact of the Covid-19 pandemic on fraud within the charity sector. Our survey sought to see how charities are managing the evolving risk of fraud and how the fraud landscape is changing as a result of the pandemic.

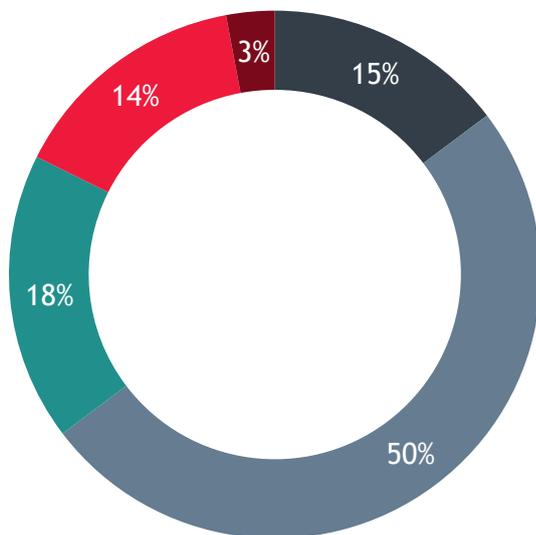




HOW DID THE COVID-19 PANDEMIC IMPACT THE RISK OF FRAUD TO CHARITIES?

Our results show that 65% of respondents either agreed or strongly agreed that the pandemic had increased the risk of fraud to their charity.

THE PANDEMIC HAS INCREASED THE RISK OF FRAUD TO MY CHARITY

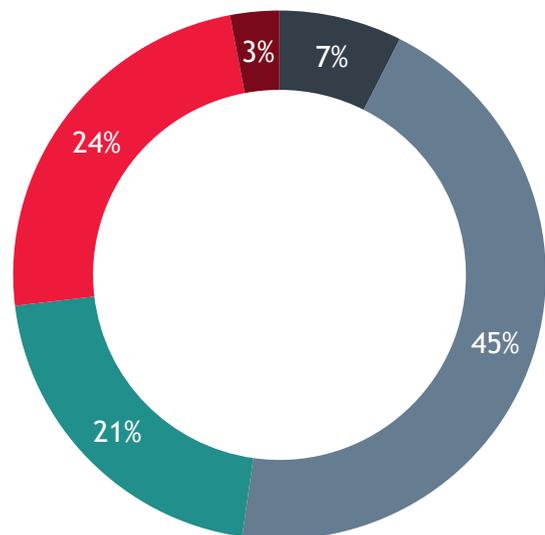


- Strongly agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

The majority of respondents agreed or strongly agreed with the statement above, and 52% of respondents believed that the pandemic made it more difficult to manage the risk of fraud to their charity.

This may be due to factors such as increased demand for emergency aid (both by the charity and end users), stretched resources as a result of job losses or furloughed staff making segregation difficult, and fraudsters taking advantage of the disruption caused by the pandemic to facilitate criminal activity.

THE PANDEMIC HAS MADE IT MORE DIFFICULT TO MANAGE THE RISK OF FRAUD WITHIN MY CHARITY



- Strongly agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

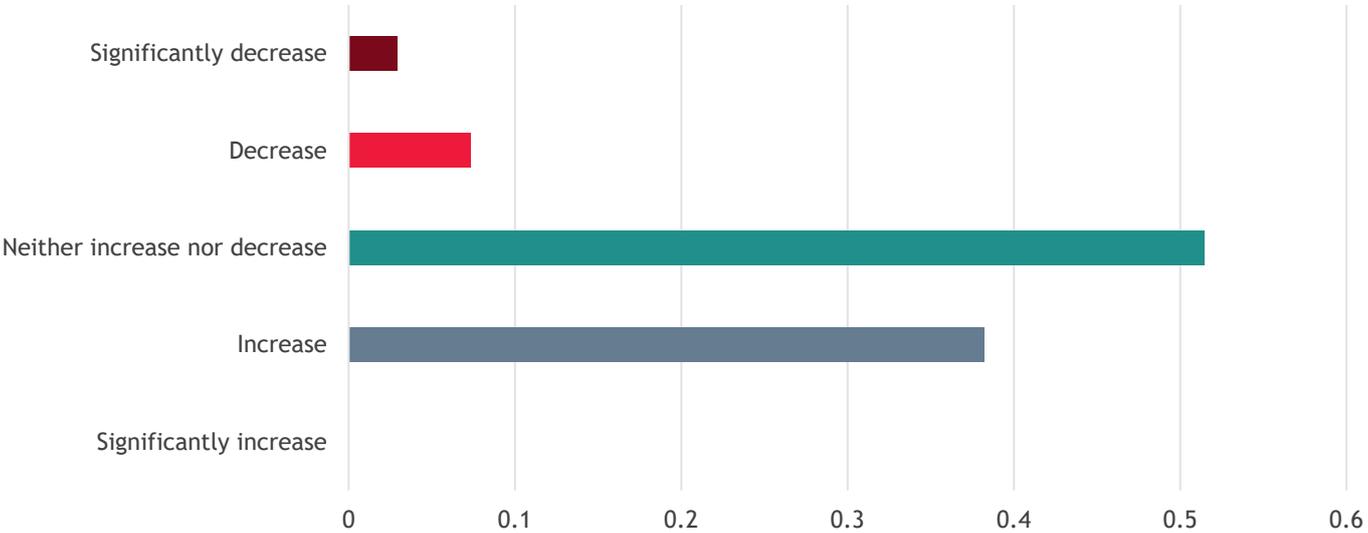
Interestingly, 20% of respondents who had suffered a fraud in the 12 months before the first national lockdown disagreed or strongly disagreed that the pandemic had made it more difficult to manage fraud risk. Perhaps these respondents, having had cause to address or refresh their fraud procedures after their fraud experience, were more prepared than other charities to deal with the change in working practices. Alternatively, perhaps they transitioned to remote working more effectively than others, or their way of working was relatively unaffected by the pandemic (for example if the charity provides essential medical services).



HOW DID THE COVID-19 PANDEMIC IMPACT THE RISK OF FRAUD TO CHARITIES?

Looking forward, we asked participants to share how they perceived the risk of fraud to their charity in the next 12 months.

THE RISK OF FRAUD TO OUR CHARITY OVER THE NEXT 12 MONTHS IS EXPECTED TO...



The results highlighted that 90% of charities were of the view that fraud will remain at an existing level or increase in the near future. This suggests that the sector is aware of the fraud risks that it faces. It could also indicate that fraud schemes, including the increasingly sophisticated cyber-enabled frauds, were already accelerating and dominating the fraud landscape well before the pandemic, and that controls had already been considered and/or implemented.

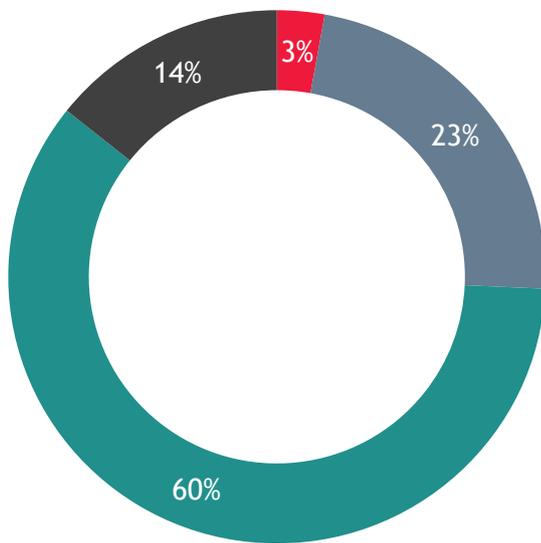




HOW DOES THE SECTOR INVEST IN FRAUD PREVENTION?

We wanted to understand how the sector invests in fraud prevention and the impact of the pandemic on future investment in fraud risk management. Although fraud risk management can often be perceived as a secondary and costly function, there is strong evidence that having effective counter-fraud frameworks in place is worthwhile. Strong controls can help to build and maintain public trust and confidence, drive down losses due to fraud, and generate other benefits such as improving the quality of service delivery.

HAS THE PANDEMIC INCREASED OR REDUCED YOUR FINANCIAL INVESTMENT IN FRAUD PREVENTION?



- Our financial investment has decreased
- Our financial investment has increased
- Our financial investment has stayed the same
- We don't financially invest in fraud prevention

Our results show that for 60% of charities, investment since the pandemic has stayed the same, while 14% of respondents said that they do not invest financially in fraud prevention at all.

Of the respondents who stated that they either agreed or strongly agreed that the pandemic has increased the risk of fraud to their charity, 79% of them stated that their financial investment in fraud prevention has not changed since the start of the pandemic. This could be because those charities had already implemented robust fraud risk management frameworks. However, it may also indicate that the level of investment in fraud prevention does not match the new level of perceived risk faced by the sector. Failure to respond proactively and increase investment during more challenging times could leave charities exposed to emerging fraud threats.

Whilst we understand that it is not always possible for charities to invest financially in a dedicated fraud role or function, our survey has highlighted that 67% of those who do not financially invest in fraud prevention are charities with an income exceeding £500,000 annually. We encourage financial investment in fraud prevention as this is the most effective defence against fraud.





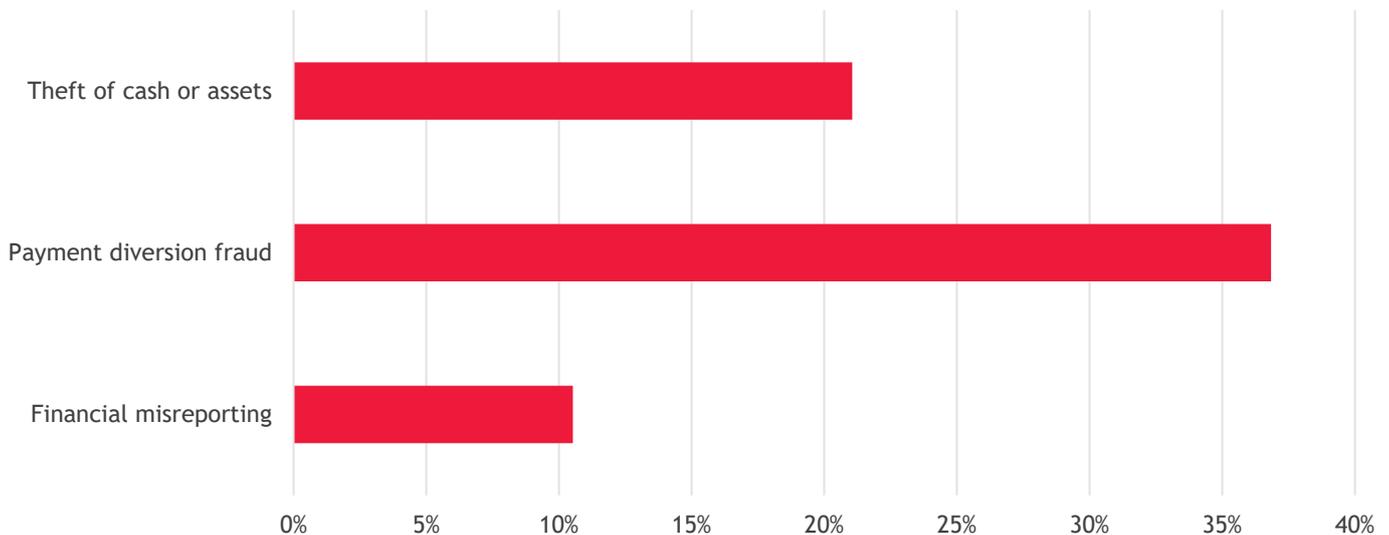
WHAT TYPES OF FRAUD IS THE SECTOR EXPERIENCING?

This question was asked to identify any emerging fraud trends and flag high-risk areas to the sector. The most common frauds experienced in the 12 months prior to September 2021 were payment diversion fraud, theft of cash or assets, and financial misreporting. There was an equal split between perpetrators being an internal threat (ie, a member of staff) or an external threat (ie, a person with no connection to the charity).

The media often portrays the fraudster as a faceless external threat to organisations, particularly when it comes to cyber- and phishing-related frauds. However, in our experience, and based on the experience of the respondents, this is not always the case - the threat can equally come from within, and often from those most trusted in the organisation. The pandemic has had a financial impact on many people and could be the driver for honest individuals to look for opportunities out of sheer desperation.

Pressure is often one of the key drivers of fraud, and with pressures increasing due to the pandemic for many reasons (eg, reduction in household income etc) internal fraud will likely increase. Charities can reduce the risk by enhancing their control environment, raising fraud awareness within the organisation and effectively removing the opportunities for insiders to commit fraud.

WHAT TYPE OF FRAUD DID YOUR CHARITY SUFFER? (THE TOP THREE ARE SHOWN)



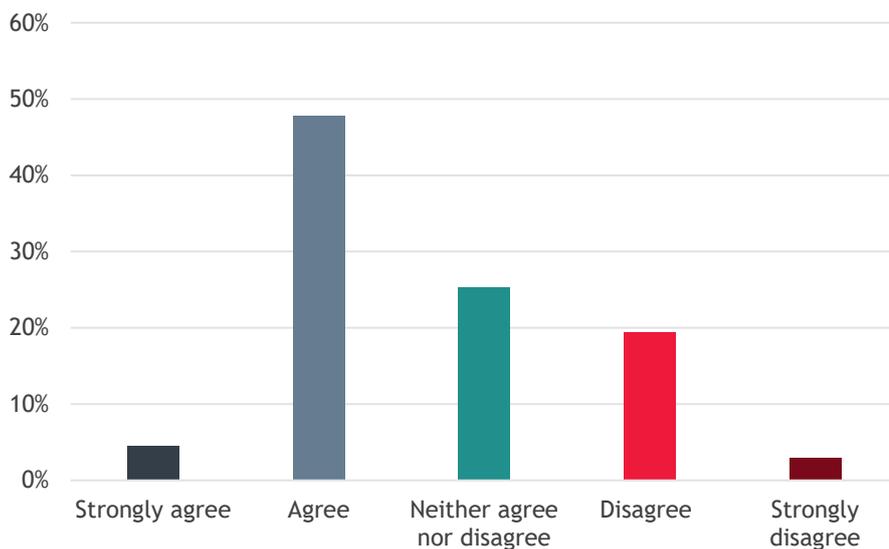
Charities need to remain vigilant against all emerging fraud threats and opportunities as fraudsters will always find new ways of defrauding organisations and are continually developing their methods to bypass fraud prevention interventions.



HAS HOMEWORKING AFFECTED THE CHARITY SECTOR'S PERCEPTION OF FRAUD?

We explored homeworking as a potential factor in increasing fraud risk as this has been one of the biggest, if not the biggest, change for many workforces across the UK. It has forced manual processes to become electronic, relationships to become virtual and made segregation of duties in many instances impractical and unworkable.

HOMEWORKING HAS INCREASED THE RISK OF FRAUD TO MY CHARITY



Our results found that only half of respondents thought that homeworking had increased the risks of fraud to their charity. It is interesting to note that the smaller charities completing the survey, with incomes below £500,000 annually, perceived that homeworking had not increased the risk of fraud to their charity. This could be because these respondents are of the view that they have either transitioned to remote working effectively, or that their way of working was relatively unaffected by the pandemic.



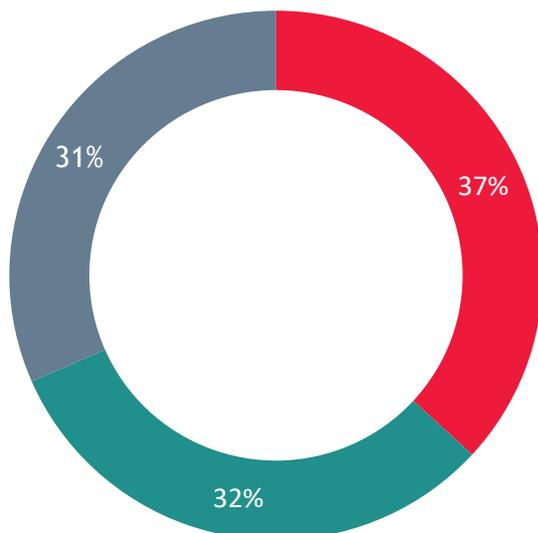
HOW ARE CHARITIES RESPONDING TO INSTANCES OF FRAUD?

Taking action against perpetrators of fraud not only sends a clear message to those who may be considering fraud, whether internally or externally, but it also increases public trust and confidence in your organisation and shows that fraud is taken seriously and dealt with appropriately.

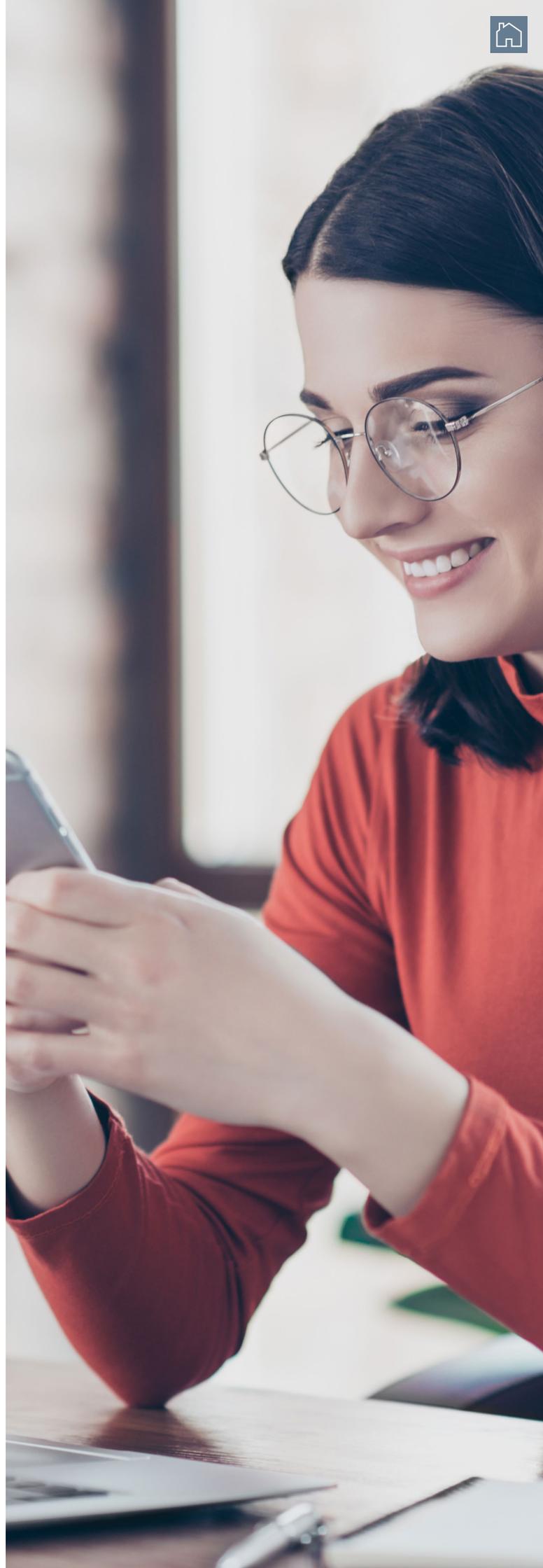
Of the charities who experienced a fraud in the past 12 months, it is particularly positive that 82% took action by applying sanctions, seeking redress or reporting to the authorities; and in some instances, a combination of them all.

An overwhelming majority of those who experienced a fraud were able to apply sanctions, but this does not guarantee that the losses due to fraud were fully recovered. This is an unfortunate reality of dealing with a fraud. To increase the chances of recovery it is essential that charities have a clear approach for dealing with a fraud so that they can act swiftly to minimise further losses and increase their chances of recovery.

WERE ANY OF THE FUNDS RECOVERED?



■ No ■ Yes ■ N/A





5 TOP TIPS FOR CHARITIES TO PROTECT THEMSELVES

1

IMPLEMENT A FRAUD AWARENESS TRAINING PLAN OR PROVIDE REFRESHERS FOR ALL STAFF

Your staff are your eyes and ears and are likely to notice when something isn't quite right. According to the Association of Certified Fraud Examiners and other recent studies, 'tip offs' or whistle-blower reports from within the organisation account for nearly 50% of all detected fraud. This highlights the importance of fraud awareness among staff and the need for an effective whistleblowing policy.

2

PERFORM A FRAUD RISK ASSESSMENT

Controls and processes are ever evolving and changing. Therefore, it is important to understand your current risk areas and ensure prevention, detection and deterrence measures are put in place to mitigate your fraud risk.

3

CONSIDER YOUR CURRENT INVESTMENT IN FRAUD PREVENTION

Has your fraud risk profile changed and do you need to increase your level of financial investment to pro-actively manage your fraud risk?

4

TEST YOUR FRAUD RESPONSE PLAN

Often, fraud response plans are in place but have never been tested. In the event that a fraud occurs your plan should ensure that it is dealt with swiftly and efficiently, and that those in key positions understand their roles. This could reduce the level of financial loss and reputational damage.

5

ENCOURAGE A PROACTIVE DIALOGUE WITHIN YOUR SENIOR MANAGEMENT TEAM REGARDING FRAUD RISK MANAGEMENT

Having a clear fraud strategy that is communicated clearly by leadership is key to driving an anti-fraud culture. The tone should be set by the senior management.





ADDITIONAL INFORMATION

Who took part in our survey?

70 participants completed the survey

The majority of respondents were:

Finance directors

43%

Chief executives

11%

70% of charities which took part were charitable companies limited by guarantee

A further **17%** were charitable incorporated organisations (CIOs)

87% of charities had annual incomes of over £500k

The geographical areas where participants carry out their activities was quite fairly spread:

36%
nationally

30%
internationally

23%
locally

11%
regionally





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The Fraud Advisory Panel is the voice of the counter-fraud profession, committed to tackling fraud and financial crime. We champion best practice in fraud prevention, detection, reporting, investigation and prosecution to enable everyone to strengthen their resilience. We do this through education, advice and research. Our members come from a wide range of professions and sectors who are united by their determination to counter fraud.

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